as well. It has occasioned them no little difficulty and considerable losses. But no one denies that there will presently be a large proportion of these workers who will be compelled again to change their employment. Moreover, the re-employment of an army approaching 3,000,000 men will by itself present a problem of readjustment which is not generally regarded as mean.

The conclusion is that since the burdens of readjustment will be with us in any case and must be undertaken regardless of the international trade policy adopted, a just regard to the economic interests of all classes in the nation will lead to the inauguration of freedom of trade, which clearly tends in the long run to maximize the net income from the exploitation of our resources and the employment of our talents. Whatever force there may be in the protectionist argument that the waste and loss occasioned by the abandonment of industries which can subsist only by special privileges outweigh the advantages to be gained by specialization in doing the things we can do best, this argument obviously falls down when applied to the situation which now confronts us.

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WASHINGTON NOTES

DEMOBILIZING INDUSTRY

The announcement on November 11 of the conclusion of an armistice with the German government has been the most important economic and financial occurrence since the beginning of the European War. Already it has had fundamental effects upon public finance, government control of industry, banking policies and methods, and the plans and prospects of private business. Thus far, time has not been sufficient to permit these great changes of policy to crystallize in the form of legislation, but the practical results of the peace announcement have nevertheless made themselves obvious.

From the standpoint of public finance the most direct consequence of the changed military outlook has been the reduction of $6,000,000,000 in the official estimates of the budget for the year 1918–19 (ending June 30, 1919). This estimated reduction has been reflected in announced plans for a corresponding cut in the war-revenue bill now before the Senate Finance Committee. It will be recalled that this bill, as it came from the House of Representatives, had aimed to provide for a revenue of

$8,000,000,000, although according to some legislators a yield of $9,000,000,000 was more likely to result from it. In the Senate committee during the months of September, October, and the first half of November this bill has been so reshaped as to reduce the expected revenue to something in the neighborhood of $6,250,000,000, while plans have been devised for the addition of consumption taxes likely to yield from $2,000,000,000 to $3,000,000,000 more. The changed financial outlook has now led to official recognition that a total revenue to be raised from the bill amounting to possibly $6,000,000,000 will be sufficient. This will permit a modification of the excess-profits tax, which in the opinion of good judges had been placed at a dangerously high figure, and may further result in some modification of income-tax rates, though this appears much less likely. Expecting a material reduction in the burden of taxation, bankers recognize the unavoidable necessity of another large Liberty loan, preceded by short-term financing designed to anticipate it, as in the previous issues. This leaves the financial community still suffering, not only from actual, but also from prospective, strain.

Meanwhile the signing of the armistice has resulted in direct industrial changes calculated to facilitate the shifting of business back to a peace basis. Of these the most significant are the changes in the system of "priorities," announced in the *Official Bulletin* from day to day during the week ending November 15, and intended to substitute priorities in favor of industries regarded as "essential" to reconstruction for priorities in favor of industries "essential" to war. A material change has incidentally been produced in transportation due in part to this modification of the priority system and in part to the suspension of the hurried movement of troops by land and water. Meanwhile the process of putting business into position to compete abroad has begun. Arrangements are already making for the shifting of industrial plants from government work to private operations and this transfer has been expedited by the cancellation of many government contracts. The question how far the process of shifting will affect prices or wages is still open to discussion. In some fields an effect is already noted. Prices of cotton and other staples have shown a downward tendency, while the curtailment of overtime at many plants has been equivalent to a real, if disguised, cut in wages. Altogether it is evident that the process of converting industry back to a peace basis has begun. The movement is showing itself to be fully as important and far-reaching as was the conversion of industry to the war basis in the first place.

QUESTION OF GOVERNMENT OWNERSHIP

Among the problems of demobilization left by the war none is probably of more immediate or more far-reaching significance than the question of permanent government ownership and operation of public utilities. Both as to land and water transportation the situation at the close of the war has become such as to establish a colorable basis for a possible continuance of government control. Government operation of railroads, although originally provided for almost as an incident or afterthought in connection with an appropriation bill, was subsequently given a definite basis in the act determining the relationship between the administration and the roads which set a period of twenty-one months after the establishment of peace as the time for the return of the properties to their owners. In the case of our shipping, the act creating the Shipping Board, adopted before the United States became a belligerent, leaves in a decidedly open condition the question whether a fleet of publicly owned vessels may or may not be continued in operation. On all practical points the subject of government ownership or control is decidedly unsettled, since the contracts between the government and the roads which were to adjust the payments due the latter are not yet completely made, while there is thus far no final accounting for the cost of federal control.

Above all it remains uncertain whether any or all of the changes introduced by public administrators have in fact either accommodated the public or proved economical. They were in many cases of uncertain effect because of the fact that the roads were working at the highest notch of operating efficiency, owing to the presence of an unprecedented volume of traffic. Behind all this is the fact that the roads, at the time the United States became a belligerent, had for a number of years been prevented by the then policy of public regulation of rates from becoming efficient, since they could not obtain the capital necessary for the additions and improvements they needed. Although the pledges both directly and impliedly given during the war period would seem to insure the return of the roads to their original owners, there is already an evident tendency to form two distinct sections of opinion, both in Congress and elsewhere, with reference to the policy to be pursued. The coming two years, during which government control will presumably be maintained, afford an opportunity for a much more careful test of what can be done through public operation than has been feasible in the eleven months of emergency work which has thus far elapsed. That the question of government operation will be a direct issue between the two

principal political parties is already foreshadowed by the developments that have occurred since the elections of November 5. Except for the reports of the Director General of Railroads covering the first few months of government operation, sent to the President in September and already noticed in these pages, no final or satisfactory statistics showing results of government conduct of transportation are as yet available. Even as to the question of earnings, definite conclusions cannot be reached because of the comparatively late date at which the 25 per cent advance in rates of June, 1918, became actually effective. A crucial period of discussion of public ownership thus opens, during which debate will doubtless be based largely upon contemporaneous developments and facts. This perhaps gives the advocates of public ownership a better opportunity for the demonstration of their claims both as to efficiency and as to economy than has ever before been afforded.

COST OF THE WAR

With the ending of the war the problem of paying for it and gradually writing it off from the books of the world presents itself as the most immediate problem. As yet it is practically out of the question to furnish any definite estimate of the total expense incurred by the world at large in carrying the war through to completion. The question of making such a computation is already in the hands of groups of statisticians working under different auspices. A preliminary computation which has been prepared by neutral bankers in Switzerland and which carries the figures down to approximately the beginning of July last is shown in the table on page 976.

In studying this table it should be borne in mind that a sharp distinction is to be drawn between the cost of the war in the larger sense and the indebtedness incurred on account of it. The net debt as shown by the computation given may be taken as perhaps $125,000,000,000, but to this must be added further sums which will necessarily be raised by borrowing during the coming months of reorganization and payment of war purchases and other current obligations. The figures, moreover, take no account of the currency issues or of floating indebtedness at the banks. If allowance should be made for these various items it would probably be necessary to increase the net war indebtedness to a figure somewhere between $150,000,000,000 and $175,000,000,000. This would still represent only the debt incurred in various forms. Additional to it would be the increased taxes borne by several, at least, of the

PUBLIC DEBT, IN MILLIONS

	Before the War			On Last Known Date		
	Date	Amount: Foreign Money	Amount: Swiss Valuation*	Date	Amount: Foreign Money	Amount: Swiss Valuation*
BELLIGERENT STATES						
Entente:			*Francs*			*Francs*
Great Britain	August, 1914	£710	17,907	June, 1918	£6,434	162,275
Australia	June, 1914	£ 19	479	March, 1918	£ 194	4,892
Canada	March, 1914	£ 69	1,740	February, 1918	£ 208	5,246
New Zealand	" "	£ 92	2,320	March, 1917	£ 126	3,177
South African Union	" "	£119	3,001	March, 1916	£ 151	3,808
France	July, 1914	Fr. 34,188	34,188	January, 1918	Fr. 127,050	127,050
Italy	June, 1914	Lire 14,467	14,467	December, 1917	Lire 34,590	34,590
Russia	January, 1914	Rb. 9,888	26,369	September, 1917	Rb. 49,288	131,436
United States	March, 1917	$1,208	6,261	January, 1918	$7,758	40,207
Total			106,732			512,681
Central powers:						
Germany	October, 1913	M. 4,891	6,038	December, 1917†	M. 106,605	131,661
Austria	July, 1914	Kr. 13,029	13,682	June, 1917	Kr. 55,105	57,866
Hungary	July, 1913	Kr. 6,638	6,970	December, 1917†	Kr. 28,150	29,560
Total			26,690			219,087
Total belligerents			133,422			731,768
NEUTRAL STATES						
Denmark	March, 1913	Kr. 361	501	March, 1917	Kr. 583	811
Spain	January, 1914	Pes. 9,785	9,785	January, 1918	Pes. 10,298	10,298
Holland	January, 1914†	Fl. 1,148	2,392	January, 1918†	Fl. 1,609	3,351
	January, 1914‡	Fl. 20	41	November, 1917§	Fl. 287	598
Norway	June, 1914	Kr. 357	496	June, 1916	Kr. 423	587
Sweden	December, 1913	Kr. 718	997	December, 1917†	Kr. 1,326	1,842
Switzerland	" "	Fr. 146	146	" "	Fr. 1,064	1,064
Total neutrals			14,358			18,551

* Foreign moneys have been reduced to Swiss francs on the basis of metallic parity.

† Approximately.

‡ Consolidated debt.

§ Floating debt.

belligerent countries throughout the war, and the suspension of developmental investment.

This suspension has gone to the point of practically terminating all issues of securities in Great Britain and on the Continent, while in the United States such issues have been gradually sinking toward the zero point, except in so far as may have been necessary to provide the refunding or continuance of outstanding issues. Exactly what the loss or sacrifice incurred on this score may have been is still to be ascertained, current estimates of it varying very widely. If it be assumed that the current savings of the United States before the opening of the war were probably about $7,000,000,000, of which a large part was represented by issues of new securities, and that practically all of these have been diverted to war operations, some idea is gained of the retardation of investment and the consequent loss resulting therefrom. The savings of Great Britain and France, while probably not as large as those of the United States, were very great, and both in the case of these countries and of Germany new investment has practically been suspended for some time past. How far this should be regarded as a net loss to be added to the losses represented by debt and taxation is already a subject of statistical controversy. It is at least clear that a loss of time has occurred which cannot be made up, such time representing the years lost to investment and economic development in consequence of the withdrawal of new savings. On the other hand a less measurable but still real element of sacrifice has been found in the loss of time and life on the part of productive workers, and in the disorganization of industrial and distributive systems, and the modification of foreign trade organization and routes.

THE BANKING SITUATION

As has been shown by the investigations of the Federal Reserve Board published in the *Federal Reserve Bulletin* for November, 1918, the fourth Liberty loan has been placed in a very large degree by the use of bank credit. Precisely how much such credit in the aggregate has been necessary in order to carry the loan is not yet certain but it has clearly been much greater than in the case of former Liberty loans. In addition to this large use of bank credit is to be reckoned the fact that the bonds of the fourth loan have been taken by the banks as collateral to secure notes running for long periods and made under agreements designed to insure to the borrower renewals at a rate of interest no higher than that borne by the bonds. These factors make not only for

a serious condition of inflation but also for the maintenance and continuance of the inflation much longer than would otherwise be probable. The return of peace therefore finds the banks of the country heavily burdened with war paper and at the same time in a position which renders it more than difficult to bring about a restoration of liquidity.

Coupled with this condition of affairs is the prospect, already referred to, of an early, and probably large, fifth Liberty loan. The indications are thus all in favor of a continuance of the inflated condition in which the banks of the country find themselves today, unless there shall be some general and resolute application of well-developed plans for the contraction of credit to its normal basis. Such plans could succeed only by determined continuance of the community in the process of saving and applying its saved funds to the reduction of its obligations incurred for the carrying of the bonds at the banks. The success thus far had in enforcing a policy of saving upon the community during the existence of the war, although marked, has never been sufficiently great to warrant a very confident expectation of material additions to this savings fund when once the stimulus afforded by the war has been removed. The country is thus thrown back once more upon banking guidance for the elimination of the inflation from which it now suffers. During the war such guidance could be offered only in the shape of advice, since the necessity of maintaining a low and stable rate of interest in favor of government obligations has entirely prevented the use of the ordinary means of credit control—the raising of the rates of discount and rediscount in such a way as to limit applications for loans. While it is true that during the latter months of the war a rigid policy of rationing fuel, transportation, and labor power, as well as many kinds of materials, prevented speculative developments in industry with the accompanying strain upon banking resources, such rationing had not been continued for a sufficient period and had probably not been of sufficient severity to produce a very widespread positive effect, although negatively it undoubtedly prevented excesses which might otherwise have occurred. With the return of peace and the lightening of the rationing policy in many respects, even this influence may be expected to decline in importance.

Thus the significance of the rate of discount as a means of control of credit extension will undoubtedly become more and more marked as time goes on. Immediate application of it is probably precluded because of the continued necessity of the government for funds during an after-war period of several months. Gradual return to a basis of solvency

and liquidity however is essential to the resumption of normal business collections and this can be accomplished only by the eventual elimination of long-term paper and inflated demand obligations from the portfolios of the banks, both member and Federal Reserve.

PRICES AND THE GOLD STANDARD

The inflation problem, as it is now recognized by banking authorities, is not local to the United States but exists practically throughout the world. British phases of it have been treated by the Parliamentary Commission on Foreign Exchange which filed its first interim report early during the month of November. This report recommended the adoption of immediate measures looking to the restoration of the gold standard in Great Britain. While the committee pointed out that it was unnecessary and clearly undesirable to attempt to return to an actual circulation of gold—paper, as experience has shown, serving the purpose better—it is fully recognized that a large supply of gold will practically be necessary for reserve purposes from and after the time when direct redemption of paper is actually restored.

The fact that the United States is today the greatest holder of gold in the world, and as a result of the war has accumulated much more than it would normally require to hold, as well as much more than would be its share on the basis of the world's banking obligations today, has suggested to many public men the thought that an immediate after-the-war problem will be provision for the redistribution of gold among the nations and consequently for a loss of gold to the United States in the process of reconstituting the gold supply of other nations. The immediate question of terminating the gold embargo, which has now been enforced for the past fifteen months, has thus been made acute. Under contracts entered into with various foreign countries we are today obligated to "release probably half a billion dollars in gold coin within a stated period after the closing of the war," and while this vague phrase permits a certain latitude in the selection of the exact date at which the shipments shall be permitted to begin, it is already the opinion of many that the sooner we are ready to release a reasonable amount of metal the more we shall contribute to the early restoration of normal banking conditions throughout the world at large.

The gold policy of the United States is however intimately associated with two immediate and serious questions—the establishment of a lower level of prices approximating that which formerly existed, and the elimination of inflation in the United States, which will permit a shrinkage

in the gold holdings of the country without any shock to what is called "confidence." Opposition to the reduction of prices is always a feature of after-war economic reorganization. One outgrowth of this feeling at the present time is seen in the international movement appearing both in England and the United States for the subsidizing of gold production. Of this movement an interesting phase has been witnessed during the month of November in the appointment of a governmental committee to report upon the necessities of gold producers and the methods properly to be followed in alleviating them. From the standpoint of inflation any loss of gold is always regarded as dangerous because of consequences which it produces in compelling the reduction of long-term loans not based upon immediate production. Both of these influences, already exhibiting themselves to some extent in business circles, naturally stand in the way of a restoration of our former policy of free importation and exportation of gold. The official suggestion is already heard from persons associated with so-called reconstruction work that something be done to check the tendency of prices downward toward the normal or older level in order that no shock to prosperity need be occasioned. On all these points, intimately connected as they are, governmental policy is still in a formative or transition stage.